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P A Y R O L L   B U L L E T I N  
(5-92)

TO: All State Agencies, Departments, Boards, Commissions  
and Universities

SUBJECT: Educational Assistance

The Tax Extension Act of 1991 extended the income tax exclusion contained in Internal Revenue Code (IRC) Section 127 for employer-provided education assistance (up to \$5,250 per year) through June 30, 1992. The Revenue Bill of 1992 (H.R. 11) which would have further extended this tax exclusion through 1993 has been vetoed. This means that employer reimbursements of educational expenses paid after June 30, 1992, which do NOT qualify as working condition fringe benefits under IRC Section 132(d) or qualified tuition reductions under IRC Section 117(d) must be included in the employee's gross income. These payments are subject to Federal and State income taxes, Social Security/Medicare taxes and, where applicable, retirement.

To qualify as a working condition fringe benefit, the education must (1) maintain or improve the skills necessary for employment or (2) be required for the employee to retain his or her current employment, status, or rate of pay. If the courses are part of a program that can qualify the employee for a new trade or business or enable the individual to meet minimum employment requirements, the educational assistance is not tax-excludable even if the courses taken improve job skills or are required by the employer. For example, the cost of a CPA review course is not excludable because it can lead to a new profession as a CPA.

Working condition fringe benefits include education expenses that would be deductible by the employee as ordinary and necessary business expenses if not reimbursed by the employer (without regard to the 2 percent floor for miscellaneous itemized deductions). Further information on education expenses which qualify as ordinary and necessary business expenses can be found in IRS Publication 508 **Educational Expenses**. This publication can be obtained at your local IRS office or by calling the IRS "Forms Only" number: 1-800-TAX-FORM (1-800-829-3676).

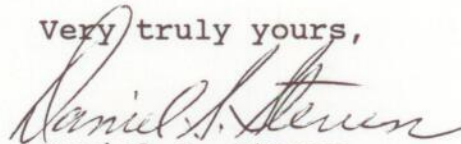
A qualified tuition reduction program is a full or partial reduction in tuition that is provided by an educational institution to an employee enrolled in study at the employing institution or another educational institution. It applies only to education below the graduate level unless it is for the education of an employee who is a graduate student engaged in teaching or research. To qualify, the tuition reduction cannot be received in lieu of compensation for the employee's services.

#### PAYROLL PROCEDURES

If a State agency makes payments for education expenses to or on behalf of an employee after June 30, 1992, which do not qualify as a working condition fringe benefit or qualified tuition reduction, the amount must be noted on the payroll voucher in column 54, Other Compensation Subject to Withholding. In addition, this amount must also be in magnetic tape positions 861 through 867. If the employee is also receiving vehicle usage income, the educational reimbursement must be added to that income. This procedure MUST be completed no later than the last payroll for calendar year 1992.

Questions regarding this Payroll Bulletin should be referred to Nancy Smith or me at (217) 782-4758.

Very truly yours,

  
Daniel S. Steven  
Payroll Supervisor

Note: The purpose of this bulletin is to provide payroll procedures for reporting taxable educational assistance and to describe generally the tax treatment of payments for educational assistance. Agencies must consult with their local office of the Internal Revenue Service, tax publications, or a professional tax advisor for specific questions about the taxability of educational assistance.